COMPRO LIMITED
THIRTY-THIRD ANNUAL REPORT 1977

Formerly Combined Engineered Products Ltd.
Name change, 1966, from Turnbull Elevator of Canada Ltd, to Combined Engineered Products Ltd. following sale of Turnbull to Dover Corporation

COMPRO

BOARD OF DIRECTORS

*M.O. SIMPSON, JR.	*Paradise Valley, Arizona, Chairman of the Board and Executive Committee*
J.P. CARRIÈRE	*Montreal*
B.T.H. KNILL	*Paradise Valley, Arizona*
*P.S. NEWELL	*Toronto*
M.O. SIMPSON	*Oracle, Arizona*
P.H. SLAUGHTER	*Clayton, New York*
*H.M. TURNER	*Toronto*

**Members of Executive Committee*

OFFICERS

M.O. SIMPSON, JR.	*President*
B.T.H. KNILL	*Vice President & Secretary-Treasurer*
P.H. SLAUGHTER	*Vice President*
K.W. DEARLOVE	*Controller*

TRANSFER AGENTS AND REGISTRARS

MONTREAL TRUST COMPANY

Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg

REGISTRAR AND TRANSFER COMPANY

34 Exchange Place, Jersey City, N.J. 07302

AUDITORS

COOPERS AND LYBRAND

THE DIRECTORS' REPORT

To the Shareholders of

COMPRO LIMITED

Consolidated sales of the continuing operations were $765,010 less than last year. Net earnings were $1,126,026 which, after deducting $109,200 dividends on the Preferred Shares, was equal to $1.66 per Common Share compared to $1.78 a year ago.

Working capital decreased by $3,632,155 to $3,015,337 at August 31, 1977. This decrease reflects the sale of Fort Garry Industries and Compro-Frink Corporation, both of which were mentioned in last year's report.

The earnings of the Company continued to be eroded by a combination of market conditions and compulsory selling price maintenance enforced by the Anti-Inflation Board. As mentioned in the Auditors' Report, and in Note 10 to the Financial Statements, a degree of uncertainty still exists in respect to the excess revenue for 1976 and 1977.

During the year Melson Incorporated completed its purchase of all the remaining outstanding Common Shares of the Company. Also during the year the Company purchased for cancellation 2,090 of its Cumulative Preferred Shares.

At present the demand for the Company's products for 1977/78 is being viewed with concern. The reduction in Government funds for the purchase of snow and ice control equipment, coupled with what appears to be reluctance on the part of some of the Company's major customers to make capital commitments, could have an adverse effect on profits in the forthcoming year. Hopefully this condition will be short-lived and the proper degree of confidence in the future of Canada will be restored.

The directors of the Company wish to express their appreciation to the officers and employees for their efforts during the year.

On behalf of the Board of Directors

Chairman

Toronto
November 10, 1977

COMPRO LIMITED AND WHOLLY OWNED SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1977

			1977	1976
ASSETS			$	$
CURRENT ASSETS				
Cash			**496,440**	1,057,724
Accounts receivable — Trade			**1,466,211**	3,269,413
— Parent company			**105,919**	—
— Affiliates			**85,041**	—
Income tax refundable			**—**	372,416
Inventories (Note 1)			**3,264,776**	6,938,139
Prepaid expenses			**117,817**	214,335
			5,536,204	11,852,027
NOTE RECEIVABLE (Note 3)			**3,559,745**	—
PREFERRED SHARES — AT COST (Note 3)				
Affiliate			**800,000**	—
Other			**225,000**	—
			1,025,000	—
	Cost	Accumulated Depreciation		
FIXED ASSETS	$	$		
Land	88,000	—	**88,000**	344,452
Buildings	1,518,943	904,327	**614,616**	1,306,639
Machinery and equipment	5,158,772	4,399,493	**759,279**	1,287,592
	6,765,715	5,303,820	**1,461,895**	2,938,683
OTHER ASSETS			**30,544**	28,494
			11,613,388	14,819,204

	1977	1976
LIABILITIES	**$**	$
CURRENT LIABILITIES		
Bank loan (Note 4)	**7,000**	341,000
Accounts payable and accrued liabilities	**1,873,714**	3,931,432
Accounts payable — Affiliate	**12,930**	—
Income and other taxes payable	**342,231**	533,291
Portion of long term liabilities due within one year (Note 5)	**284,992**	398,812
	2,520,867	5,204,535
LONG TERM LIABILITIES (Note 5)	**427,565**	1,758,795
DEFERRED INCOME TAXES	**327,500**	325,000
SHAREHOLDERS' EQUITY (Note 6)		
CAPITAL STOCK		
Authorized —		
200,000 Preferred Shares of the par value of $20 each, issuable in series		
1,200,000 Common Shares without nominal or par value		
Issued and fully paid —		
97,910 (1976 — 100,000) $1.10 Cumulative Preferred Shares, Series A, redeemable at $21.50	**1,958,200**	2,000,000
612,300 Common Shares	**157,250**	157,250
CONTRIBUTED SURPLUS	**15,246**	—
RETAINED EARNINGS	**6,206,760**	5,373,624
	8,337,456	7,530,874
	11,613,388	14,819,204

Signed on behalf of the Board:

M.O. SIMPSON, JR., *Director*

B.T.H. KNILL, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

FOR YEAR ENDED AUGUST 31, 1977

	1977	1976
	$	$
SALES (Note 2)	**18,243,632**	31,039,644
COSTS		
Cost of products sold	**13,327,683**	24,054,774
Advertising	**127,113**	195,525
Selling expenses	**989,934**	1,540,705
Research and product development	**94,224**	63,309
Administrative and general expenses	**1,096,257**	2,137,077
Depreciation and amortization	**323,060**	456,736
Remuneration of directors and senior officers (Note 8)	**373,318**	448,730
Profit on disposal of facilities no longer required for manufacturing	—	(125,562)
	16,331,589	28,771,294
EARNINGS BEFORE INVESTMENT INCOME, INTEREST & INCOME TAXES	**1,912,043**	2,268,350
INVESTMENT INCOME		
Parent company	**179,873**	—
Dividends and interest	**30,705**	—
	210,578	—
EARNINGS BEFORE INTEREST AND INCOME TAXES	**2,122,621**	2,268,350
INTEREST EXPENSE		
Long term liabilities	**122,086**	214,887
Bank loans	**17,509**	986
	139,595	215,873
EARNINGS BEFORE INCOME TAXES	**1,983,026**	2,052,477
INCOME TAXES		
Current	**819,500**	730,000
Deferred	**37,500**	125,000
	857,000	855,000
NET EARNINGS FOR THE YEAR	**1,126,026**	1,197,477
Per Common Share (after dividends on Preferred Shares)	**$1.66**	$1.78

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR YEAR ENDED AUGUST 31, 1977

	1977	1976
	$	$
RETAINED EARNINGS — beginning of year, as previously reported	**5,398,624**	4,476,468
Prior period adjustment (Note 7)	**25,000**	25,000
	5,373,624	4,451,468
NET EARNINGS FOR THE YEAR	**1,126,026**	1,197,477
DIVIDENDS — Preferred Shares	**109,200**	110,000
Common Shares	**183,690**	165,321
	292,890	275,321
	833,136	922,156
RETAINED EARNINGS — end of year	**6,206,760**	5,373,624

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Compro Limited and its wholly owned subsidiary company as at August 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As set out in Note 10 the company is unable to determine the extent of the corrective action which might be required by the Anti-Inflation Board as a result of its excess revenue position.

In our opinion, subject to the determination of the magnitude of the corrective action, if any, which might be required by the Anti-Inflation Board, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1977 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

Toronto, October 31, 1977

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR YEAR ENDED AUGUST 31, 1977

		1977	1976
WORKING CAPITAL PROVIDED BY:		$	$
Operations —			
Net earnings for the year		**1,126,026**	1,197,477
Add: Charges not requiring an outlay of funds			
Depreciation and amortization		**323,060**	457,218
Deferred income taxes		**37,500**	125,000
		1,486,586	1,779,695
Disposal of fixed assets		**—**	353,563
Sale of operations: —			
Disposal of fixed assets	1,441,573		
Decrease in long term liabilities	(1,153,059)		
Decrease in deferred income taxes	(35,000)	**253,514**	—
		1,740,100	2,133,258
WORKING CAPITAL APPLIED TO:			
Dividends paid to preferred shareholders		**109,200**	110,000
common shareholders		**183,690**	165,321
Additions to fixed assets		**287,845**	1,047,585
Decrease in long term liabilities		**178,171**	151,334
Investments		**1,025,000**	—
Note and interest receivable arising from sale of operations		**3,559,745**	—
Purchase of $1.10 cumulative preferred shares, Series A, for cancellation		**26,554**	—
Increase (decrease) in other assets		**2,050**	(58,411)
		5,372,255	1,415,829
DECREASE (INCREASE) IN WORKING CAPITAL		**3,632,155**	(717,429)
WORKING CAPITAL — beginning of year		**6,647,492**	5,930,063
WORKING CAPITAL — end of year		**3,015,337**	6,647,492

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDED AUGUST 31, 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies followed by the company that materially affect the determination of financial position and results of operations are as follows:

Basis of Consolidation

The accounts of the company and its subsidiary company have been consolidated.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined using either average, standard which approximates average cost, or actual. Cost, where applicable, includes labour and overhead.

	1977	1976
	$	$
These comprise:		
Raw Materials	305,419	1,745,576
Work in Process	1,548,404	1,525,607
Finished Goods	1,410,953	3,666,956
	3,264,776	6,938,139

Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis at the following rates;

Buildings — 2-1/2% to 5%

Machinery and Equipment — 10% to 33-1/3%

When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any profit or loss is recognized currently.

Income Taxes

The provision for income taxes in the financial statements relates to the items of income and expense included in such statements. To the extent that such items, principally depreciation, are recognized in a different period for tax purposes, deferred income taxes are provided to give effect to these timing differences.

Pensions

The most recent valuations of all pension plans by independent actuaries indicates, at August 31, 1977, an unfunded past service liability of $470,000, of which $407,000 is actuarially computed to have vested, and an experience deficiency of $40,000. The unfunded past service liability is to be funded over a further 13 years and the experience deficiency over 3 years. The company has no legal liability with regard to the past service obligations including that portion which is vested.

2. CLASSES OF BUSINESS OR PERCENTAGE OF SALES

	1977	1976
Snow and ice control equipment	45%	34%
Hydraulic and traction elevators	5	17
Industrial gears and speed reducers	39	25
Truck parts, equipment and service	—	13
Other (including roll coverings, rubber linings, and miscellaneous steel fabrication)	11	11
	100%	100%

3. SALE OF OPERATIONS

On November 1, 1976 the company sold to its parent company its subsidiary, Compro-Frink Corporation, for what management believes to be its fair market value. No profit or loss was realized on the sale. The company received as consideration a term note in the amount of U.S. $3,382,270 bearing interest at 6% per annum and repayable, including interest, in annual instalments from 1979 to 1988. The unrealized exchange gain on this note at August 31, 1977 was $253,000, none of which has been taken into income.

Interest of $177,475 has accrued to August 31, 1977 and is included with the note receivable on the balance sheet.

In January 1977 the company subscribed for U.S. $800,000 of preference shares of Compro-Frink Corporation entitled to non-cumulative dividends of 8% per annum.

The company also sold its Fort Garry Industries Division for its net book value at August 31, 1976 of $1,118,000 for which it received cash of $893,000 and 6% cumulative redeemable preference shares of the acquiring company with a par value of $225,000.

4. BANK LOANS

$657,000 of the bank loans including term bank loans at August 31, 1977 have been secured by a floating charge debenture on the company's assets and by pledging inventories and trade accounts receivable of the company and its subsidiary.

5. LONG TERM LIABILITIES

	Long Term	Portion due within one year
	$	$
Term bank loans — scheduled for repayment at varying amounts per year to August 31, 1980 (secured: Note 4)	400,000	250,000
Equipment financing	27,565	34,992
	427,565	284,992

6. CAPITAL STOCK

During the year the company purchased for cancellation on the open market 2,090 $1.10 cumulative preferred shares, Series A, with a par value of $41,800. The difference between the par value and the amount paid for these shares ($15,246) has been shown as contributed surplus. Retained earnings include $41,800 set aside by the directors as required by law.

7. PRIOR PERIOD ADJUSTMENT

During the year the company arrived at a settlement with the Internal Revenue Service concerning its examination of a former subsidiary of the company. The examination, which was in respect of the 3 years prior to the subsidiary's sale in 1965, was settled for $25,000.

This amount represents an adjustment of the original sale price and accordingly has been recorded as a prior period adjustment.

8. INFORMATION RE DIRECTORS AND OFFICERS

The company has seven directors whose aggregate remuneration as directors was $7,204, all of which was paid by the company. The company had five officers (including one who was a past officer) whose aggregate remuneration was $230,639 (1976, $462,148) of which $24,360 (1976, $260,648) was paid to October 31, 1976 by Compro-Frink Corporation which was a wholly-owned subsidiary until that date. Three of these officers are also directors.

9. LONG TERM COMMITMENTS

Annual rental on long term leases of real property and equipment are $104,250. Such leases expire at varying dates before 1983.

10. ANTI-INFLATION ACT

The company and its Canadian subsidiary are subject to restraint of prices, profit margins, compensation and dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975. Calculations in accordance with the Anti-Inflation Regulations indicate that the company was in an excess revenue position in both 1976 and 1977 for certain of its product lines. Despite the company's policy of price maintenance, which is in accordance with the Board's requirements, and prolonged discussions with the Board, the company is still not in a position to estimate the effect of any corrective action which the Board may require the company to take in respect of its excess revenue position. Accordingly, no provision has been made in the accounts for the possible effects on the company's financial position of such corrective action.

In accordance with the Anti-Inflation Regulations the amount of dividends which the company can declare or pay on its common shares prior to October 14, 1978 is limited to $191,668.

COMPRO LIMITED

365 Evans Avenue
Toronto, Ontario M8Z 1K2

DIVISION

HAMILTON GEAR AND MACHINE COMPANY
Toronto, Ontario; Montreal, Quebec and Vancouver, B.C.

SUBSIDIARY

C.E.P. INDUSTRIES LIMITED

EASTERN STEEL PRODUCTS
Cambridge and Mississauga, Ontario and Montreal, Quebec

FRINK CANADA
Cambridge and Mississauga, Ontario and Montreal, Quebec

AFFILIATED COMPANY

COMPRO-FRINK CORPORATION

FRINK SNO-PLOWS
Clayton, New York

SOUTHEASTERN-WESTBROOK ELEVATOR
Atlanta, Georgia and Danville, Virginia

PARENT COMPANY

MELSON INCORPORATED
Scottsdale, Arizona

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COMPRO LIMITED

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INTERIM REPORT

TO SHAREHOLDERS

FOR THE SIX MONTHS

ENDED FEBRUARY 28, 1977

COMPRO LIMITED

To the Shareholders:

The 1976 figures include certain operations that were sold earlier in the fiscal year. Sales of $10,828,094 and earnings of $859,800 or $1.31 per common share from the continuing operations compare favourably with the results from these operations for the same period a year ago. Working capital was $3,342,465 at February 28, 1977.

The decline in the rate of incoming orders has reduced the backlog position of the company by $1,600,000 compared to a year ago. If this trend continues future sales and earnings will be adversely affected.

April 13, 1977

M.O. Simpson, Jr.
Chairman and President.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1977

	Feb. 28 1977	Feb. 28 1976
	$	$
SALES	10,828,094	16,676,486
EARNINGS BEFORE PROFIT ON SALE OF DANVILLE PROPERTY AND INCOME TAXES	1,567,705	1,672,201
ESTIMATED INCOME TAXES	707,905	752,601
	859,800	919,600
PROFIT, AFTER TAXES, ON SALE OF DANVILLE PROPERTY	—	123,000
NET EARNINGS FOR THE PERIOD	859,800	1,042,600
EARNINGS PER COMMON SHARE (after dividends on Preferred Shares)	$1.31	$1.61

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1977

	1977	1976
WORKING CAPITAL PROVIDED BY:		
Operations		
Earnings for the period	859,800	1,042,600
Depreciation provided	189,805	222,641
	1,049,605	1,265,241
Sale of Fort Garry Industries and Compro-Frink Corporation	1,435,663	—
Sale of Danville Property	—	137,269
	2,485,268	1,402,510
WORKING CAPITAL APPLIED TO:		
Dividends paid to preferred shareholders	55,000	55,000
Dividends paid to common shareholders	183,690	165,321
Additions to fixed assets	76,450	431,350
Net decrease (increase) in long term liabilities	1,092,885	182,520
Investment in affiliated company	800,000	—
Preferred shares and notes taken back on disposal of operations	3,607,270	—
	5,815,295	834,191
(DECREASE) INCREASE in working capital	(3,330,027)	568,319
WORKING CAPITAL at beginning of year	6,672,492	5,955,063
WORKING CAPITAL at end of period	3,342,465	6,523,382
CURRENT ASSETS	6,406,765	11,645,786
CURRENT LIABILITIES	3,064,300	5,122,404
	3,342,465	6,523,382